

BENV 2115-1050: Market Manipulations
MBA Elective
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Course Description: We are emerging from one of the most severe economic crises in the nation's history. In two such crises over a hundred years ago, J.P. Morgan, one of the most reviled and caricatured men of his day, twice rescued the U.S. economy from disaster. How did he do it? Who plays the role of J.P Morgan today? Can we learn anything from the historical parallels?

This course examines a range of market manipulations, including speculation events such as bubbles, panics, and manias; scams such as Ponzi schemes; “exploits” that use the rules of the organization for corrupt purposes; cost or risk-shifting; rent-controlling behavior that takes advantage of control over essential resources producing market power; expropriations such as theft and embezzlement; enticement events such as bribery; and normative rents or cover that use trust-producing or promise-keeping processes or institutions to conceal fraud. It also examines some of the social, institutional, and governmental attempts to deal with these manipulations.

Thus, what is perhaps unusual in this course is its dual treatment of both the mechanisms by which opportunistic actions are taken in markets, and the attempts to ameliorate impacts that occur as byproducts of such actions. In order to provide this dual treatment, the course examines and compares a selection of historical contexts, often tracing those contexts via the experience of major historical actors.

The focus for the historical contexts to be examined will be on U.S. business history in the period 1835-1935. Because of its extensive business history content, this course is very different from others in the Katz MBA program, and students should have a strong interest in reading about and discussing historical events.

Course objectives and structure: Thus, a major objective of the course is student understanding both of the forms and management of several major kinds of market manipulations, and of the historical contexts and consequences of such actions.

After discussing what factors facilitated the Great Recession that began in 2008, we begin with an examination of the nature of a market, its limitations or “failures,” the “market levers” that can be manipulated to influence market behaviors, and the types of market manipulations commonly observed, such as speculative events like bubbles or scams like Ponzi schemes. We then examine the evolution of the business firm and how the institutions of the firm and its environment evolved as mechanisms to manage risks, including a look at what I have termed the Landa problem. Next we examine what Mark Twain called the “Gilded Age,” looking at the construction of the transcontinental railroad and the Credit Mobilier scandal, and then examining and comparing the business lives of Andrew Carnegie, John D. Rockefeller, and George Westinghouse. We will look at the Homestead Steel Strike in detail (associated with Carnegie and Frick) and compare it to the Ludlow Massacre (associated with a company owned by John D. Rockefeller, Jr.). We then review and compare a succession of panics in American business history – those associated with 1837, 1857, 1869, 1873, 1893/5, and 1907.

We then shift to the Progressive Era, and the pushback that occurred. We look at Coxey's Army as an attempt at market manipulation via mass movement (the first such effort in American history), and Coxey's anticipation of the New Deal. We examine the activities of such muckrakers as Ida Tarbell, Lincoln Steffens, Ray Stannard Baker, Samuel Hopkins Adams, and Upton Sinclair. We look at the growth of government attempts to regulate industry so that it behaves more like the designers think markets should behave. We look at the Triangle Shirtwaist Company Fire of 1911 and examine the interplay of reformers and government, focusing on New York. We look at the career of Frances Perkins. We compare the Crash of 1929 to the panics previously considered in the course, and to what should be called the Panic of 2008.

As time permits, we will compare factory towns that grew up in the industrial era – Homestead (Carnegie), Pullman, and Hershey.

Finally, we will discuss the science fiction novel, *Time and Again*, which takes us back to the world of the 1880s. Having looked at that world from the perspective of market manipulations, we can see how the world of 1882 so vividly described in the novel reflects the actual business life of the era, and how the countervailing modern market manipulations discussed in the course – for example, media influences in the detection and notification of abuses, as well as government regulation – show themselves as dramatically missing.

Course Requirements: Students are expected to attend all classes, do the assigned readings, and take the two tests. Much of the class material is not duplicated in the readings, so it is important to come to class. It is not possible to make case videos and visual media available for viewing outside class. Students are responsible for attending class and taking notes. Although some slides will be made available to students, it is your responsibility to take notes. *The slides are outlines and summaries; they are not notes.*

Email to Prof. Mitnick: All emails to Prof. Mitnick should be sent to govern@pitt.edu. I keep my own calendar, so please contact me directly. The faculty assistant, MacKenzie Cater, does not provide support to me other than for course logistics, and will not know where I am or make appointments for me.

Course readings: Four books (including a novel) and a few articles are assigned as readings, but students will not be expected to read and be tested on all the descriptive content reflected in these materials; guidance will be provided in class on which parts of the readings will be emphasized. Readings in addition to the books will be emailed directly to students' Pitt email addresses, or are readily available on the web as noted. *Please be sure to check your Pitt email box regularly for course emails.*

Required Books:

Edward Chancellor. 1999/2000 [paperback printing]. *Devil Take the Hindmost: A History of Financial Speculation*. New York: Plume/Penguin.

Charles R. Morris. 2005/2006 [paperback edition]. *The Tycoons: How Andrew Carnegie, John D. Rockefeller, Jay Gould, and J.P. Morgan Invented the American Supereconomy*. New York: Times Books/Henry Holt and Company.

Ellen F. Fitzpatrick, ed. 1994. *Muckraking: Three Landmark Articles*. Boston: Bedford/St. Martin's.

Finney, Jack. 1970[2012 is the most recent paperback edition, but any edition is fine]. *Time and Again*. New York: Scribner/Touchstone/Simon & Schuster. [A science fiction novel that presents an incredibly well visualized account of everyday life in the 1880s in New York.]

Course assessments: The course will include two tests (50% each). The tests will be given at the end of the two class weekends and cover the material for that weekend. In addition, three students may volunteer to do short presentations during our discussion of *Time and Again* toward the end of the February weekend. The presentations should apply the course material to *Time and Again*. For example, to what extent does the story describe or imply the existence of the kinds of market failures that a few decades later will lead to regulation? Do we see market manipulations – of what kinds? Do some research about the events and/or individuals we discussed in the course – what was going on in 1882, and what would you infer from that about life in 1882? Students who do the presentation will receive 5 points of extra credit.

Class process: The course is offered in the weekend format, spanning the weekends of January 17-19 and February 14-16. Class goes 1-5pm Fri, and 9-5 pm on Sat and Sun. There will be a roughly one hour break for lunch. The class formats will include both lecture and discussion. Students are expected to have done the readings and be ready to discuss them in class. The course covers a number of historical events and contexts. Several superb documentary videos describing some of the historical cases covered in the course will be shown; the instructor will also be presenting a number of the cases. Class discussion will center on analysis and comparison of the historical cases.

If you have a disability for which you are or may be requesting an accommodation, you are encouraged to contact both Prof. Mitnick and Disability Resources and Services (DRS), 140 William Pitt Union, (412) 648-7890/(412) 383-7355 (TTY), as early as possible in the term. DRS will verify your disability and determine reasonable accommodations for this course.

Class Topics and Readings:

- 1. Introduction:** Sir Gregor MacGregor, and the greatest scam of all time.
- 2. The Great Recession:** Why did it happen? Did it have to happen? Let's look for the levers that pushed it and could have been handled another way.

Reading:

The Financial Crisis Inquiry Report (Financial Crisis Inquiry Commission, January 2011). You can get it from either of the following URLs:

Government website (kept frozen as an archive): www.fcic.gov

FCIC site set up as a searchable database: <http://fcic.law.stanford.edu/>

Read the Conclusions, pp. xv-xxviii, which are right at the beginning of the report (*only about 14 pages long*), and then look for supporting evidence by skipping through the text. Your goal is to get an understanding of the factors that caused and/or facilitated the financial crisis, not to master all the incredible detail here. **YOU ARE NOT EXPECTED TO READ THE WHOLE THING, OR EVEN MOST OF IT.** This is a mammoth study - over 600 pages. I suggest you keep it on your computer or

put it on an e-reader; you'll need wheels if you want to cart it anywhere. We will be looking at the financial crisis as a point of historical comparison.

3. Markets and Market Failure

- **Claimed advantages and disadvantages of markets.**
- **Can we make any formal claims about markets that argue they should be superior?**
- **Classical forms of market failure.**

Reading:

Barry M. Mitnick, "Market Failure," in Robert W. Kolb, ed., *Encyclopedia of Business Ethics and Society* (Sage Publications, 2008). *To be emailed to your Pitt email address.* This article reviews the classic forms of market failure, many of which are commonly offered as rationales for why regulation is necessary. The article uses a number of technical terms from the political economy literature, so is pretty abstract in places. Don't be put off by that. I'll go over this in class. To some people, this may seem pretty esoteric stuff (and a bit heavy going in the reading), but it is important in providing some basic theory to our discussion of why regulation as a market repair is instituted. No, all the readings are not going to be like this one.

4. The Market Manipulations Approach: Market Levers

- **Market Actors**
- **Exchange Characteristics**
- **Market-Level Factors**
- **Institutional Environment**

5. A Partial Typology of Market Manipulations

- **Speculation Events:**
 - Manias/Euphorias
 - Bubbles
 - Tulipomania
 - South Seas Bubble
 - Dot Com Bubble
 - Panics
 - Panic of 2008 (Great Recession)
- **Scams**
 - Ponzi Schemes
 - Bernie Madoff/Harry Markopolos
- **Exploits**
- **Cost Off-Loading; Risk-Shifting**
- **Extraction/Extortion/Rent-Seeking Behavior**
- **Expropriation**
- **Theft/embezzlement**
- **Enticement**
 - Bribery as a price
- **Normative Rents**
 - Contract cover/fiduciary cover

Reading:

Mitnick, Barry M. 2008. Market bubbles. In Robert W. Kolb, ed., *Encyclopedia of Business Ethics and Society*. Newbury Park, CA: Sage Publications. [TO BE EMAILED]

Chancellor, pp. 3-121.

6. The Business Firm

We'll take a look at the evolution of business and the invention of the modern business firm. We can see strong evidence that the creation of modern business institutions was linked to the management of market failures.

- **Early business**

- The Church, the Medicis, and the evolution of societal contract; just vs. natural price.

- **Evolution of the firm**

- Sebastian Cabot and the creation of the joint-stock trading company.
- Governance as assurance -- solving the problem of opportunism, and the problem of risky enterprises.
- Sketch of developments in the history of the firm that dealt with risk management/assurance.

7. The Landa Problem

- **Cases:**

- Empathy in Japan
- Lakeside, OH

- **Landa markets and the case of the Rothschilds.**

8. The Gilded Age

- **The Railroads: The transcontinental railroad and the Credit Mobilier scandal.**

- **Andrew Carnegie -- the rise of Carnegie -- how did he do it?**

Homestead Steel Strike. Carnegie, Frick, and Boss Magee.

Exam 1 will be about here. Weekend 1 ends about here, but could end earlier or later in the list of topics.

- **John D. Rockefeller -- the genesis of the trust -- JDR as entrepreneur -- How was JDR a modern entrepreneur?**

Ludlow Massacre. John D. Rockefeller, Jr.; Woody Guthrie song.

- **George Westinghouse and the War of Currents**
-- Were they all “robber barons”?

- Edison vs. Westinghouse: the social construction of entrepreneurship -- selling the unknown/marketing belief. Cf. Carnegie’s “All is well since all grows better... upward and onward.” Song “I Believe.”

Reading:

Morris, pp. 1-29, 60-160, 187-229

Optional: Chancellor, pp. 122-190.

Begin reading *Time and Again* [Visit the Gilded Age]

9. Panics: What do they have in common?

- **Panic of 1837**
- **Panic of 1857**
- **Black Friday, 1869**
- **Panic of 1873**
- **J.P. Morgan and the Panics of 1893/5 and 1907**
- **The Federal Reserve Act of 1913**

Reading:

Morris, pp. 230-270.

10. The Progressive Era -- *pushback*. The failure of belief. Policy, evidence, measurement, and the bully pulpit. Advocacy and “balance.”

- **The social construction and marketing of belief: Creation and hero myths, and the rise of baseball; the baseball trust. “Casey at the Bat.”**
- **Populists and markets: Coxey’s Army (1894); mass movements as market manipulations. Jacob Coxey foresees the New Deal. *The Wizard of Oz*.**
- **The Muckrakers:**
 - The crowd at *McClure’s Magazine*: Ida Tarbell, Lincoln Steffens, and Ray Stannard Baker.
 - Upton Sinclair: *The Jungle* and TR
The Federal Meat Inspection Act of 1906
 - Samuel Hopkins Adams
The Pure Food and Drug Act of 1906
- **The “redemption of New York”:**

- Seth Low, Mark Twain, and Joseph Johnson, Jr. as Chief Oak (1901).
- Municipal corruption and business. Tammany Hall as entrepreneur; cycles of social reform as creative destruction.
- The mayors of New York. Mayor John Purroy Mitchel.
- **Theodore Roosevelt** -- “I Rose Like a Rocket” [Letter, TR to TR, Jr.]
 - From the state assembly to President. Reform and policymaking as a small world.
- **Making markets more like markets: the rise of regulation and professional government.**
 - The Interstate Commerce Commission and the invention of the administrative agency; fixing fixes: Hepburn Act; Transportation Act of 1920.
 - The Sherman Antitrust Act of 1890.
 - Progressives in government: Franklin K. Lane -- conceptions of the public service: “Makers of the Flag” address.
 - John Muir vs. Gifford Pinchot: Preservation vs. conservation.
 - The Triangle Shirtwaist Company Fire (1911)
 - Reforms: Joseph Johnson, Jr., as Fire Commissioner
 - Frances Perkins, Al Smith, and the Factory Investigating Commission of New York. The career of Frances Perkins. TR again: A railroad trip from Albany to New York leads ... after about 35 years ... to social security.

Reading:

Fitzpatrick, pp. 1-121.

Read/listen to the materials on the following web sites: (the first three concern Frances Perkins; the third focuses on the 1911 Triangle fire)

<http://francesperkinscenter.org/>

<http://www.columbia.edu/cgi-bin/cul/resolve?lweb0136>

<http://www.ssa.gov/history/fperkins.html>

<http://www.ilr.cornell.edu/trianglefire/>

11. The Crash of 1929 and the New Deal

- **Crash of 1929**
 - How does the Panic of 2008 compare??
- **The Hundred Days – government as experiment.**
 - Frances Perkins and the NIRA. Perkins and Social Security.
 - Civilian Conservation Corps -- direct action by government

Reading:

Chancellor, pp. 191-232

12. Homestead vs. Pullman vs. Hershey: Factory Towns [will be covered as time permits]

- **Comparing factory towns**
- **The case of Milton Hershey: embedded social entrepreneurship**

13. *Time and Again*. Presentations.

Reading:

Finney, *Time and Again* [whole novel]

In case you want to read further: Some additional sources for background on the topics in the course:

Brands, H.W. *American Colossus: The Triumph of Capitalism, 1865-1900* (New York: Anchor Books/Random House, 2010).

Bruner, Robert F. and Carr, Sean D. 2007. *The Panic of 1907: Lessons Learned from the Market's Perfect Storm*. Hoboken, NJ: Wiley.

D'Antonio, Michael. 2006. *Hershey*. New York: Simon & Schuster.

Downey, Kirstin. 2009. *The Woman Behind the New Deal: The Life and Legacy of Frances Perkins -- Social Security, Unemployment Insurance, and the Minimum Wage*. New York: Anchor Books/Random House.

Fitch, John A. 1989. *The Steel Workers*. Pittsburgh, PA: University of Pittsburgh Press. Digital edition.

Hareven, Tamara K. & Langenbach, Randolph. 1978. *Amoskeag: Life and Work in an American Factory-City*. Hanover, NH: University Press of New England.

Jonnes, Jill. 2003, 2004. *Empires of Light: Edison, Tesla, Westinghouse, and the Race to Electrify the World*. New York: Random House Trade Paperbacks.

Kindleberger, Charles P. & Aliber, Robert Z. 2011. *Manias, Panics, and Crashes: A History of Financial Crises*, 6th edition. New York: Palgrave Macmillan.

- Kleinberg, S. J. 1991. *The Shadow of the Mills: Working Class Families in Pittsburgh, 1870-1907*. Pittsburgh, PA: University of Pittsburgh Press. Digital edition.
- Krause, Paul. 1992. *The Battle for Homestead: 1880-1892: Politics, Culture, and Steel*. Pittsburgh, PA: University of Pittsburgh Press.
- Lowenstein, Roger. 2010. *The End of Wall Street*. New York: Penguin, 2010.
- McLean, Bethany & Nocera, Joe. 2010. *All the Devils Are Here: The Hidden History of the Financial Crisis*. New York: Portfolio/Penguin.
- Reinhart, Carmen M. & Rogoff, Kenneth S. 2009. *This Time is Different: Eight Centuries of Financial Folly*. Princeton: Princeton University Press.
- Sorkin, Andrew Ross. 2009, 2010. *Too Big to Fail*. New York: Penguin.
- Vogel, Harold L. 2010. *Financial Market Bubbles and Crashes*. Cambridge: Cambridge University Press.
- Von Drehle, David. 2003, 2004. *Triangle: The Fire that Changed America*. New York: Atlantic Monthly Press/Grove Press.
- Weinberg, Steve. 2008. *Taking on the Trust: How Ida Tarbell Brought Down John D. Rockefeller and Standard Oil*. New York: W.W. Norton.